

THE COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

Western Massachusetts Electric Company
Docket No. DTE 00-40

COMMENTS OF THE AGENCIES ON THE
WESTERN MASSACHUSETTS ELECTRIC COMPANY APPLICATION

The Massachusetts Development Finance Agency (successor to the Massachusetts Industrial Finance Agency) and Massachusetts Health and Educational Facilities Authority (the "Agencies"), acting jointly, hereby submit the following comments regarding the application (the "Application") of the Western Massachusetts Electric Company (the "Company") to issue Rate Reduction Bonds (RRBs) and the role of the Agencies in this process. These comments are based on a review of the Application as well as discussions with the principal rating agencies involved in rating such transactions and with the Company prior to their filing of the Application.

Agencies' Goal

As the Financing Entity for the RRBs, the Agencies' goal is to protect the interests of the Company's ratepayers, who through the payment of the transition charges are the sole source of payment for the RRBs, by:

Ensuring the lowest all-in cost possible for the RRBs;

Streamlining the administrative processes and thereby minimizing the costs of issuing the RRBs; and

As provided for in G.L. c. 164, §1H(b)(2), providing expertise to the Department of Telecommunications and Energy (the "Department") regarding the requirements of the Financing Order to allow for the most cost-efficient structure for the issuance of the RRBs.

Agencies' Roles

The Agencies will oversee the issuance of the RRBs. They will approve the final terms and conditions of the RRBs including structure, pricing, credit enhancement, relevant issue costs and manner of sale, thereby protecting the interests of the ratepayers. The Agencies will also coordinate the marketing of the bonds and the procurement of bond trustees and related services, the selection of rating agencies and the underwriting syndicate to minimize the all-in cost of the RRBs and associated administrative expenses. In addition, the Agencies are available as intervenors to the Department to provide expertise regarding financial aspects of the RRBs.

Agencies' Analysis of the Company's Application

The Agencies and their legal and financial professionals have analyzed the following aspects of the Application:

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The Legal Validity of the Proposed Order: The Agencies have reviewed the proposed Financing Order contained in the Application to ensure it meets the legal requirements to issue RRBs. The Agencies believe these requirements are met.

The Ability to Meet Rating Agency Requirements: The agencies have reviewed the proposed Financing Order to ensure that the RRBs issued thereunder could achieve the highest rating category. The Agencies believe the proposed Financing Order includes the provisions necessary for the RRBs to achieve the highest possible ratings from all major rating agencies and therefore bear the lowest interest cost. Those provisions include the following:

Automatic True-Up Mechanism: The True-Up mechanism provides a methodology for routine periodic true-ups to occur as required without further Department deliberation, though the Department has 15 days to ensure that the methodology was implemented correctly. This meets the rating agency requirement that true-ups be implemented automatically in a timely manner, guaranteeing timely payments to RRB holders. The ability to do quarterly true-ups if required is also included in the Financing Order, thereby meeting rating agency requests for the possibility of more frequent than annual true-ups during the time period between expected and legal final maturity of each tranche of RRBs.

Minimum Credit Criteria for Billing by Third-Party Suppliers (TPSs): The proposed Financing Order includes criteria for TPS consolidated billing that meet the requirements of the rating agencies. Specifically, these criteria are:

Minimum Qualification Standard: The Financing Order requires any TPS rated below 'BBB' to post a cash deposit or comparable security equal to one month's maximum estimated collections if the TPS wishes to bill and collect transition charges. At a minimum, rating agencies require a TPS rated less than 'BBB' to post cash or comparable security equal to the number of days between the billing date and the date the Company or successor servicer could assume responsibility for billing in the event of a default by the TPS, times one day's maximum estimated collection. One month's maximum estimated collections should be sufficient to address rating agency concerns.

Time Frame for Remittance: The Financing Order specifies that payments due from ratepayers should be submitted by the TPS to the Company within 15 days of billing, regardless of whether payments have been received by the TPS. Rating agencies suggest this procedure to facilitate tracking of payment delinquencies and ensure a clear definition of payment obligations. For example, if payment is due to the Company within 15 days of receipt by the TPS, the Company cannot determine absolutely that the TPS has met this requirement. If payment is due 15 days after billing, there is an objective standard upon which to base compliance.

Reversion to Dual Billing: If a payment is not made by the TPS within the designated time frame, billing will revert to the Company within seven days. This requirement is consistent with rating agency requirements because it minimizes the potential impact of a TPS default.

Financial Responsibility: As noted above, a TPS is responsible for remitting transition charges to the Company, regardless of whether the ratepayer has paid. This requirement is consistent with rating agency requirements and will provide an incentive for the TPS to diligently pursue slow paying ratepayers and to manage work-out or default situations.

True-up Applicability: In the event of a default in the remittance of RTC charges by a TPS, such amount will be included in the True-up calculation to the extent necessary. This requirement is consistent with rating agency requirements, ensuring that default by a major TPS will not impair the repayment of the securities.

Assurance that "Benefits" are Delivered to Customers: The Company estimates net present value savings to ratepayers at \$19 million, resulting from a reduction in

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the transition charge due to the issuance of RRBs. The Agencies will be prepared to assist in reviewing the financial analysis to ensure its accuracy.

The Existence of a Mechanism to Capture Incidental Benefits for Ratepayer: The proposed structure includes a Memorandum Account to account for and credit to ratepayers the interest earnings on unremitted collections of RTC Charges, if not remitted daily, and other incidental benefits received by the Company, should there be any. The language of the Financing Order should ensure that any amounts accounted for in the Memorandum Account, as well as any overcollateralization amounts or RTC Charge collections that remain after retirement of the RRBs, are credited to ratepayers, regardless of whether there still exists a transition charge.

Costs of Issuance: The Agencies are presently reviewing with the Company its estimated direct transaction costs and on-going administrative costs. The Agencies' approval of the reasonableness of such costs will be required.

Proposed Remittance Structure: The Agencies agree with the proposed process by which the Company will remit to the Special Purpose Entity estimated RTC Charge collections based on amounts billed and current cash received and based on a methodology satisfactory to the rating agencies to be designed by the Company.

Servicing Fees: The proposed Financing Order provides for annual servicing fee of up to 1.25% of the initial principal balance for servicers who do not concurrently bill the RTC Charge with other service charges to ensure the ability to service these bonds in the event the Company cannot. As long as the servicing remains with the Company or any other entity that concurrently bills other charges, the fee will be .05% of the initial principal balance, which the Agencies believe is a reasonable fee and has been determined through negotiations between the Agencies and the Company.

Items Outside the Agencies' Purview

As a matter of information, the role of the Agencies does not include review and comment on the following matters, which are properly within the Department's authority:

Determination and Audit of Reimbursable Transition Costs Amounts

The Use of RRB Proceeds by the Company

Audit of Savings

Respectfully submitted,

MASSACHUSETTS DEVELOPMENT FINANCE

AGENCY

MASSACHUSETTS HEALTH AND EDUCATIONAL

FACILITIES AUTHORITY

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